NUCLEAR POWER: THE ENVIRONMENTALISTS' BEST FRIEND?

WHY TOYOTA IS HOT

HOW MERV GRIFFIN GOT TAKEN IN ATLANTIC CITY

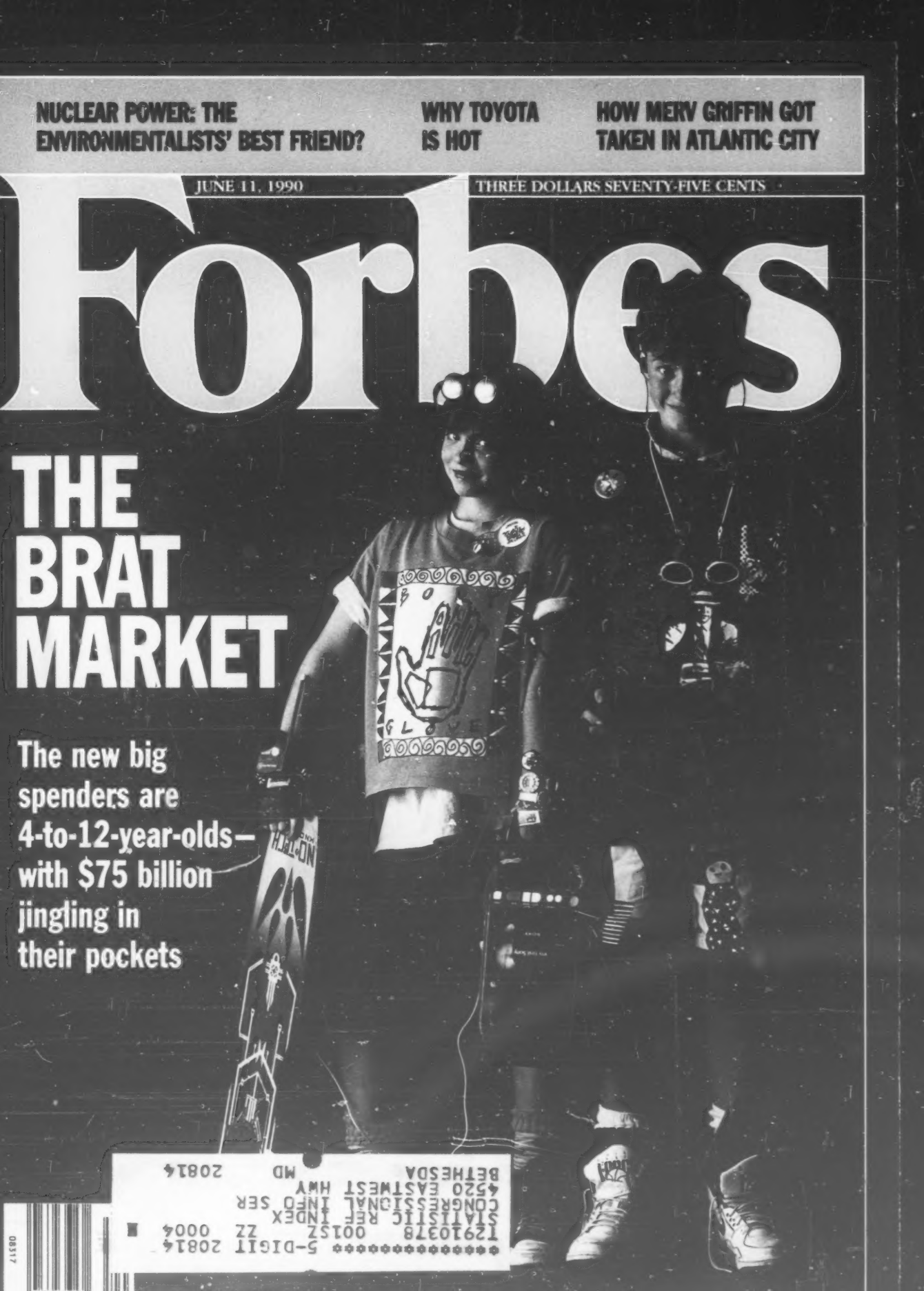
JUNE 11, 1990

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

THE BRAT MARKET

The new big spenders are 4-to-12-year-olds—with $75 billion jingling in their pockets



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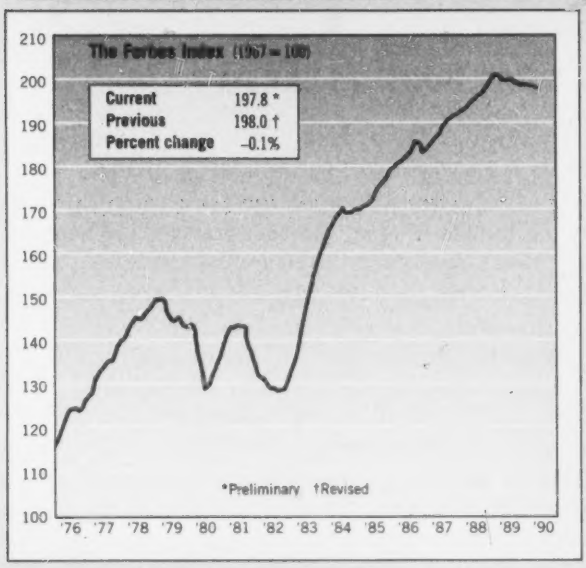
Cover photograph by Jade Albert; Styling by Suzanne Maher, Hair and makeup by Jeffrey Martin, My First Sony C.D. Player, My First Sony Walkie Talkies, Atari Lynx, 20 20 Space Watch, Armitron Barbie Watch, Swatch Pop Watch, Mutant Ninja Turtle Watch: courtesy of F.A.O. Schwarz, Back to the Future Skateboard: courtesy of Gem Sporting Goods

The Forbes Index



The government revised or restated several Forbes Index components. The February and March figures for new housing starts were revised upward. The Forbes Index now shows a minor drop in the first three months of 1990 and it is likely to show a decline for April as well; the preliminary number is down 0.1%. Industrial production fell 0.4% in April. Inflation appears to have leveled off after running at an 8.5% annual rate in the first quarter. Consumer prices are now 4.7% higher than they were a year ago *(see chart of inflation and oond yields, p. 226).*

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–3.6%
Index of leading indicators March vs. February	Dept of Commerce	0.3%
Trade balance last 12 months ending March 1990	Dept of Commerce	–$95 bil
Producer price index April vs. 1989[2]	Dept of Labor	3.5%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	2.1%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	5.0%

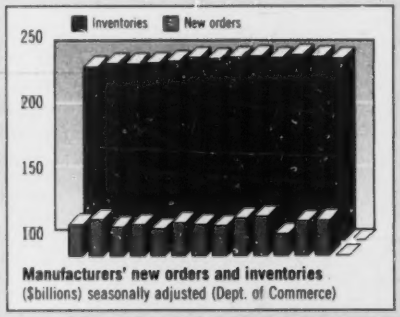
[1]U.S.-based manufacturers, excludes imports, as of 5/10/90. [2]Finished goods. [3]March 1990.

Index Components

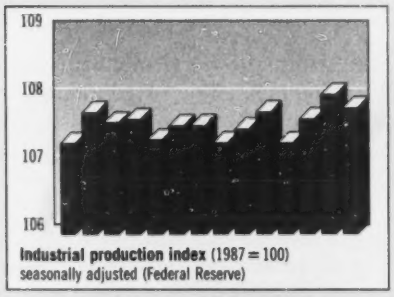
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)

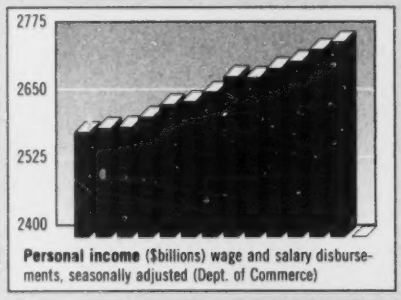


Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



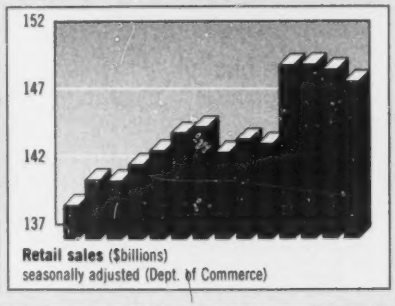
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

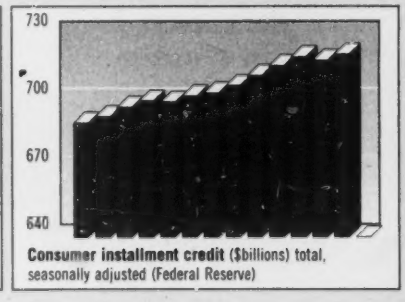


Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

The Forbes Wall Street Review

Edited by Eric S. Hardy

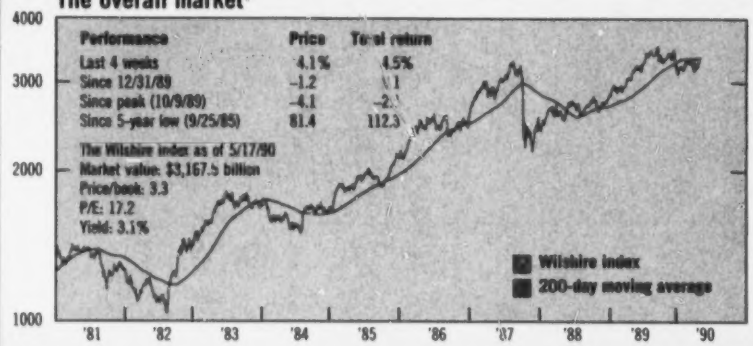
Has the turnaround in small stocks finally arrived? William LeFevre, a market strategist at Advest who specializes in the other end of the market—the 30 Dow industrials—says there is at last some evidence that secondary issues are performing as well as big stocks. For the two weeks ended May 17, the Dow, NYSE composite, Nasdaq and Wilshire index all rose 5%.

This is quite a change from the general tenor of the market for most of the 1980s, when big-capitalization stocks did spectacularly well and small caps didn't. In May the Dow hit a record high and now the overall market appears to be catching up. According to LeFevre, the improvement in secondary stocks is actually part of a trend that started well before May. That's quite a concession from someone whose livelihood is based on big stocks.

Smith Barney's John Hoffmann, who follows emerging growth stocks, is encouraged about strength in high-technology issues and thinks this may be a sign that small-cap stocks are coming to life. Among his current favorites are Pyramid Technology, Altera and Agency Rent-A-Car.

If you want to stick with blue chips, LeFevre recommends Eastman Kodak. "Now that the Dow has broken out of its trading range, Kodak continues to be one of the few stocks being left behind," he says.

The overall market[1]



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Pinnacle West Capital	16⅜	28%	15	1,807	1.5
Advanced Micro Devices	10½	22	22	8,130	2.1
Medco Containment Services	22½	22	NM	5,401	1.8
Sun Microsystems	29⅜	21	69	23,879	1.7
Golden West Financial	31	21	12	1,392	1.0

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Hubam	4⅛	-21%	51	147	2.6
Hanover Insurance	23	-18	6	666	4.7
Hechinger	13¼	-9	13	39	1.1
Wang Labs	4⅛	-8	NM	2,046	9.8
Unisys	13¾	-8	NM	6,627	1.1

Closeup on the Market

Index or investment	Price	2-week change	Index or investment	Price or rate	2-week change
Wilshire Index 5,000 stocks; capitalization weighted	3,379.58	5.1%	Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	912.00	7.4%
Wilshire Index 4,500 stocks, equal weighted	21.33	2.5	Institutional[5] Approximately 200 stocks with high institutional ownership	116.00	4.5
Dow Jones Industrials 30 stocks; Dow-adjusted price average	2,831.71	5.0	Individual[5] Approximately 200 stocks with low institutional ownership	102.94	1.7
S&P 500 Capitalization weighted cross section, major stocks	354.47	5.6	Russell 2000 Index 2000 stocks with small market values, capitalization weighted	164.91	3.2
NYSE Capitalization weighted, all listed common stocks	193.69	5.2	Gold[6] (composite quote of 6 major dealers)	$369.70	-0.2
Amex Capitalization weighted total return stocks, warrants	354.78	2.9	Yen[6] (per $U.S.)	152.28	-3.7
Nasdaq Capitalization weighted, all issues traded nationally	445.74	4.8	Commodity Index[6] (CRB futures index, 1967=100)	246.89	0.4
Amex International market index Capitalization weighted, 50 largest ADRs	314.33	7.0	Oil[6] (W Texas Intermediate)	$18.85	4.7
			T bills[6] (90 days)	7.65%	-19 basis points[7]
			Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 5/17/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 5/18/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

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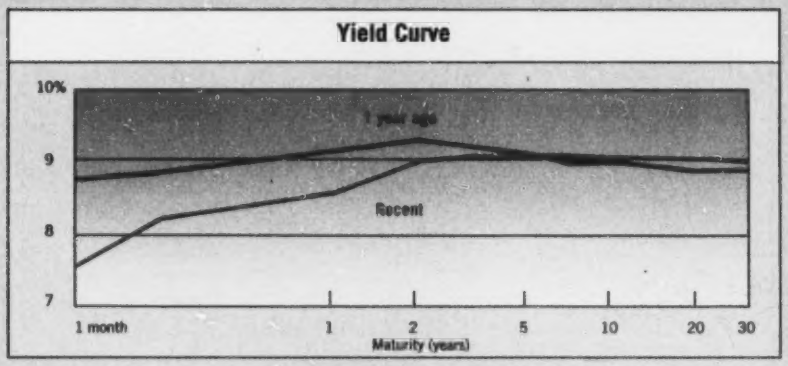
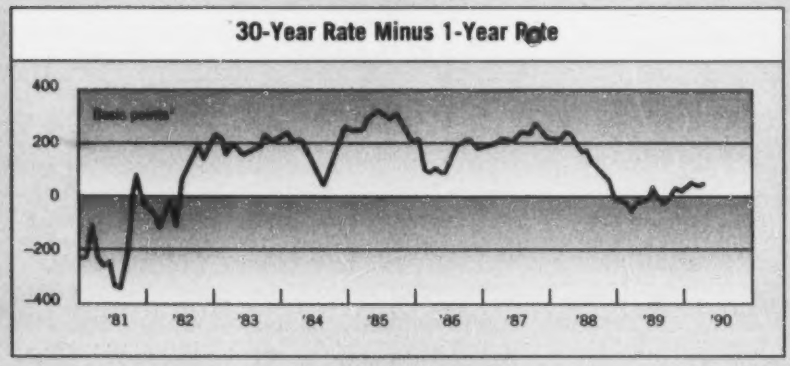
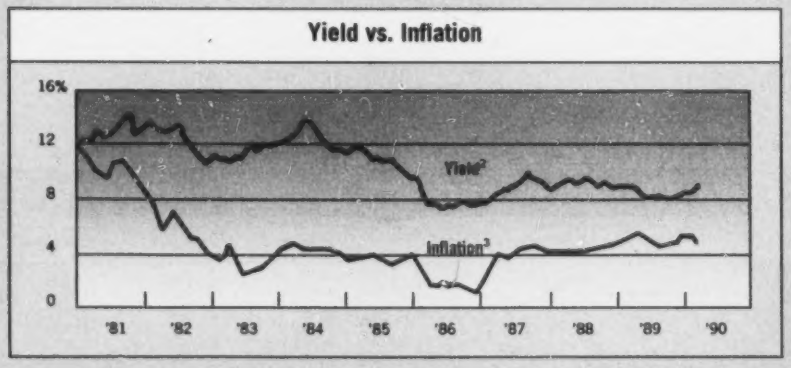
Fixed Income Review

Edited by Eric S. Hardy







Spread over Treasurys		Total returns		
Security	Basis points[1]	Security	1 year[6]	3 years[6,7]
AA corporates	88	AAA corporates	8.2%	8.3%
AAA industrials	81	Ginnie Maes[5]	10.9	9.4
Ginnie Maes	115	Junk corporates[4]	–3.2	4.9
Junk corporates[4]	773	Municipals[5]	7.2	8.3
Municipals[5]	–145	Treasury bonds	8.4	7.4

Note: Except where footnoted, all information provided by Berkeley, Calif.-based Barra, a financial consulting firm. [1]A basis point is equal to one-hundredth of a percentage point. [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index, through 4/30/90. [4]Source: First Boston. [5]Source: Shearson Lehman Hutton. [6]Through 4/30/90. [7]Three-year total return, annualized.

The *Bond Buyer* reports that during the first quarter $25 billion in long-term municipal debt (maturities 13 months and over) was sold, off 3.4% from the comparable 1989 quarter. Short-term tax-free bonds have experienced an even sharper decline. Securities Data Co. reports that corporations also aren't selling as much debt as they did a year ago.

This apparent reduction in the demand for credit would create a wonderful interest rate environment if only the federal government were also issuing less debt. But the Treasury's demand for fresh cash resulted in a $99 billion increase in the amount of Treasury bonds, notes and bills outstanding during the first quarter, versus $57 billion for the year-ago period. The credit markets have been absorbing this debt remarkably well. The yield on 30-year Treasurys, which shot up during April, has settled back down to a range of 8.5% to 8.8%.

The junk corporate market has had more than its share of recent volatility, and it has been written off by many investors. This is probably an overreaction. "Just because Drexel Burnham collapsed doesn't mean the whole high-yield market went with it," says Merrill Lynch managing director Martin Fridson. "Despite the decline in high-yield bond funds in 1989, the Merrill Lynch index of high-yield bonds shows an average annual total return of 13% [from 1980 through 1989], which easily exceeds the return on Treasurys," says Fridson, adding that higher rates more than compensate for the possibility of additional defaults. He recommends that investors interested in junk debt should invest in high-yield mutual funds rather than individual issues.

In some ways, recent turmoil in less-than-investment-grade bonds has benefited stronger junk issuers. Because the whole market was dragged down, some companies with excess cash have been buying up their own debt in the secondary market. It's the bond equivalent of share buy-backs. If you can borrow at 13% from a bank to repay a bond yielding 18% to maturity, you come out ahead. The accounting rules say the borrower can report the difference between face value and actual retirement cost as income.